

# BRAC BANK

## SME FINANCING



**SUBMITTED TO**

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**SUBMITTED BY**

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## LETTER OF TRANSMITTAL

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Date: 21<sup>st</sup> October, 2012

To  
Rahnuma Ahmed  
Lecturer  
BRAC Business School  
BRAC University  
66, Mohakhali, Dhaka

Subject: **Submission of Internship Report on “BRAC Bank SME Financing”**

Dear Madam,

With due respect, I am submitting my Internship Report on the topic titled **“BRAC Bank SME Financing”** as a partial fulfillment of my BBA Program.

It’s my pleasure to inform you that I have already finished my internship in a reputed bank. It was undoubtedly an interesting opportunity for me to work on this assigned topic to enhance my knowledge in the practical field. I would like to thank you for giving me the opportunity to do the study.

An internship report has been prepared based on the practical experiences and different ideas obtained during my internship in “BRAC Bank Limited”. Please find the internship report attached herewith.

Therefore I sincerely hope that you will appreciate my effort and I shall be grateful if my report is accepted for the appropriate purpose.

Thanking you

Sincerely yours,

Fahmida Sultana

## **ACKNOWLEDGEMENT**

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All praise to Allah, the Almighty, and the merciful. Without his blessings and endorsement this report would not have been accomplished.

The successful completion of this report might never be possible in time without the help of some person whose inspiration and suggestion made it happen. First of all I want to thank my mentor and Chief Cash and Client Service Officer of “BRAC Bank Limited” **Mr. Md. Shafiqur Rahman** for guiding me during my Internship. Without his help this report would not have been accomplished.

Then I would like to thank to my advisor, **Rahnuma Ahmed** for helping me completing my internship report on “**BRAC Bank SME Financing**”

I also, thank my colleague who helped me by providing informative instructions. I was closely attached with them during my internship tenure. Without them this project would have been very difficult.

Finally, thanks to my parents, and some friends who keep on this long process with me, always offer support.

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## EXECUTIVE SUMMARY

As part of my BBA program, I have completed my three months internship program from a reputed bank “BRAC Bank Ltd”. During my internship time, I have gained valuable knowledge and experience in the field of banking. So based on my learning and experience from the organization I have completed my internship report on “BRAC Bank SME Financing”. In this paper I have tried to focus and analyze the SME financing process of BRAC Bank Ltd. In the report I have discussed the SME products that the bank offers, the strategies they follow for the individuals taking loan from the bank, the monitoring process. This bank offers different SME products which suits the different customer needs. They are:

- Anonno Rin
- Apurbo Rin
- Digoon Rin
- Prothoma Rin
- Pathshala Rin
- Supplier Finance
- Aroggo Rin
- Cash Secured Loan
- Bizness Account

I have basically discussed about the current environment they are dealing with. I have tried to find out the basic appraisal of SME loan. I have also tried to know the enterprise and entrepreneur selection criteria to provide SME loans, terms and conditions of the loans, the disbursement and recovery procedures of the loans and the reconciliation process. Finally based on all the findings I tried to make some relevant recommendations.

From my personal view the learning aspect was fruitful and the experience there will help me in the future. I have learnt many aspects of banking. Working with the bank was a great learning opportunity.

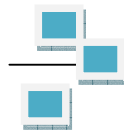
# Chapter 1

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## Introduction

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## INTRODUCTION:

In our country the most valuable resource is our people. After independence we are struggling to become economically stable country. Commercial Banks of our country are only working for larger industries and trading organizations and NGO or other Micro lenders are working here in the financial field, providing very small amount. But the small and medium entrepreneurs were ignored. This missing middle group is small but striving entrepreneurs.

Financing difficulty of SMEs is a common problem all over the world. The same situation also exists in Bangladesh. SMEs are playing more and more important role in economic development of Bangladesh. The reason of SMEs financing embarrassment is various. One of the reasons is that the lack of enough credible credit rating records of SMEs.

Small businesses pose a particular challenge for lenders because of their lack of audited financial statements, commingling of the owner's personal finances and those of the business and because of their diversity". On one hand, bank may refuse to lend to SMEs because of the lack or low credit rating in order to avoid high risk. On the other hand, financial institutions have to follow the same procedure to evaluate the credit ratings of SMEs for the small amount of loan requirements of SMEs as that of used in large scale enterprise credit ratings. The same processing procedure will lead to high management cost for every unit of loan sum for financial institutions.

In our country, there are lots of small & medium businesses which are potential enough to grow but are not provided with positive support. If they are given opportunities, they can be a great business for our country. With this view BRAC Bank was opened to serve these small but hard working entrepreneurs. As a socially responsible bank, BRAC Bank wants to see the release of grass-roots level to their economic height and also to make profit by serving the interest of missing middle groups. 50% of its total portfolio usually collected from urban areas, are channeled to support these entrepreneurs who in future will become the potential strength of our economy. BRAC Bank is the market leader in giving loans to Small and Medium Entrepreneurs.

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## **OBJECTIVE:**

The objective of the report is categorized into two parts, one is board objectives and the other is specific objectives. These are given below:

### **Broad Objective:**

To know details of SME loan activities in BRAC Bank Ltd

### **Specific Objectives:**

- To find out basic appraisal of SME loan.
- To know the enterprise selection criteria to provide SME loan.
- To know the terms and conditions of SME loans.
- To know the disbursement and recovery procedures of SME loans.
- To know the reconciliation process.
- To make some recommendations on the basis of relevant findings.

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## SCOPE:

SME Department is dealing with all types of Small and Medium loan activities in the bank, opportunities are there to learn other aspects of SME.

- Concept of SME and its impact in overall economy of Bangladesh
- Entrepreneurship development situation through SME banking
- Importance of SME banking in the context of Bangladesh
- Small entrepreneurs of rural –urban spectrum are enjoying the BRAC Bank loan facility without the presence of bank at rural area.
- Virtual banking concept through SME banking
- Other bank’s performance in comparison to the SME banking at BBL

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## METHODOLOGY:

### Primary data sources:

- Interview with Customer relationship officers (CROs) and customers
- Direct observation.

### Secondary data sources:

- Official Website of BRAC Bank Ltd
- Brochures, leaflets, files and published reports, learning materials collected from BRAC Bank Ltd.
- Research papers on SME banking

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## LIMITATIONS:

I have faced the following barriers while preparing the report.

- Data from BRAC Bank Limited, Head Office is highly confidential for the outside people.
- I have to go under my day to day job responsibility which I am supposed to do. So, I could get few more time to spend in collecting data for preparing my internship report.

## Chapter 2

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## BRAC BANK LIMITED at a Glance

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## **BACKGROUND OF BRAC BANK LIMITED:**

BRAC Bank Limited started its business on the 4th of July 2001 with a clear vision to work as a catalyst for the vibrant SME sector in Bangladesh. BRAC Bank is a commercial scheduled bank extending full range of banking facilities as per the directives of Bangladesh bank. The Bank has positioned itself as a fourth generation Bank with a focus to meet diverse financial needs of a growing and developing economy. It is not just a place for transactions-BRAC Bank is a place where potentials are realized.

BRAC Bank Limited, with institutional shareholdings by BRAC, International Finance Corporation (IFC) and Shore cap International, has been the fastest growing Bank in 2004 and 2005. The bank operates under a "double bottom line" agenda where profit and social responsibility go hand in hand as it strives towards a poverty-free, enlightened Bangladesh.

A fully operational Commercial Bank, BRAC Bank Limited focuses on pursuing unexplored market niches in the Small and Medium Enterprise Business, which till now has remained largely untapped within the country. The management of the Bank believes that this sector of the economy can contribute the most to the rapid generation of employment in Bangladesh.

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## **CORPORATE VISION:**

Building a profitable and socially responsible financial institution focused on Markets and Business with growth potential, thereby assisting BRAC and stakeholders build a just, enlightened, healthy, democratic and poverty free Bangladesh.

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## **CORPORATE MISSION:**

- Sustained growth in 'Small & Medium Enterprise' sector
- Continuous low cost deposit growth with controlled growth in Retained Assets

- Corporate Assets to be funded through self-liability mobilization.
- Growth in Assets through Syndications and Investment in faster growing sectors
- Continuous endeavor to increase fee based income
- Keep Debt Charges at 2% to maintain a steady profitable growth
- Achieve efficient synergies between the bank's Branches, SME Unit Offices and BRAC field offices for delivery of Remittance and Bank's other products and services
- Manage various lines of business in a fully controlled environment with no compromise on service quality
- Keep a diverse, far flung team fully motivated and driven towards materializing the bank's vision into reality

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#### **CORPORATE OBJECTIVES:**

The objective of BRAC Bank Limited is specific and targeted to its vision and to position itself in the mindset of the people as a bank with difference. The objectives of BRAC Bank Limited are as follows:

- Building a strong customer focus and relationship based on integrity, superior service.
- To creating an honest, open and enabling environment
- To value and respect people and make decisions based on merit
- To strive for profit & sound growth
- To value the fact that they are a member of the BRAC family – committed to the creation of employment opportunities across Bangladesh.
- To work as a team to serve the best interest of our owners
- To base recognition and reward on performance
- To responsible, trustworthy and law-abiding in all that we do

- To finance the international trade both in import and export.
- To develop the standard of living of the limited income group by providing Consumer Credit.

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### CORPORATE VALUES:

- Value the fact that every employee is a member of the BRAC family
- Creating an honest, open and enabling environment
- Have a strong customer focus and build relationships based on integrity, superior service and mutual benefit
- Strive for profit & sound growth
- Work as a team to serve the best interest of the owners
- Relentless in pursuit of business innovation and improvement
- Value and respect people and make decisions based on merit
- Base recognition and reward on performance

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### VALUES - CRYSTAL

**C** stands for being **Creative**, Be a person of innovative ideas in solving issues, thinking different ideas to reach one destination; do new associations between existing ideas or concepts for the organization's overall growth.

**R** stands for being **Reliable**, Be worthy of reliance or trust at work so everyone could depend on you.

**Y** stands for remaining **Youthful**, Be a person of freshness and vibrant characteristic at work. Feel young at HEART and project enthusiasm during performing duties.



**S** stands for being **Strong**, Be a person of willing to move forward and apply conscious choice, willpower, discipline and passion at work.

**T** stands for being **Transparent**, Be transparent at work at all level both internally and externally. Show openness and honesty through communication to bring transparency

**A** stands for being **Accountable**, Be accountable for own actions and take responsibilities for the outcome of the actions; be responsible and answerable towards customers, organization, regulatory bodies as well as the society.

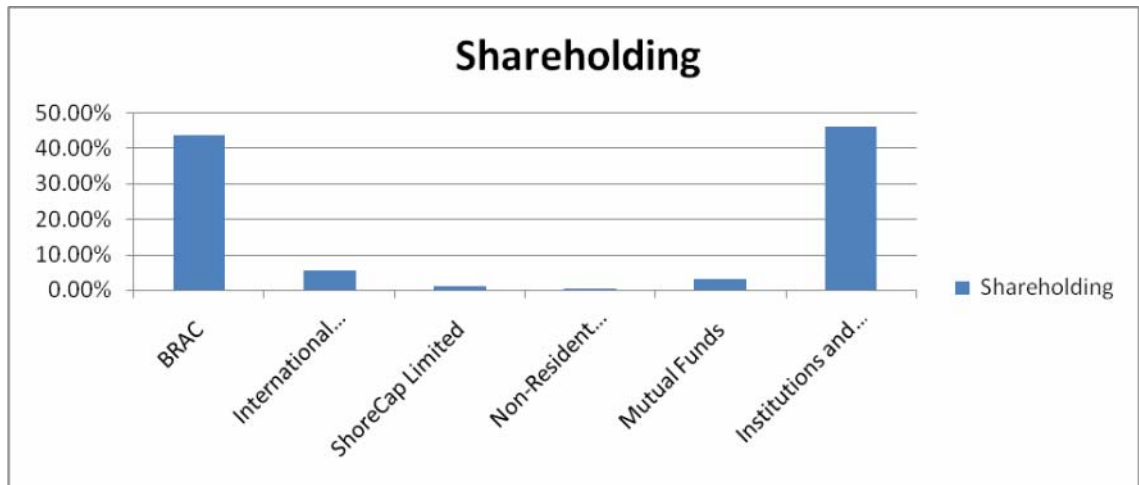
**L** stands for being **Loyal**, Be loyal to the organization by being compliant at work, taking ownership and create belongingness which will carry your brand as your pride.

*e.g. operation manual, SME BRAC Bank (2010)*

#### SHAREHOLDING STRUCTURE:

Name of Shareholder	Shareholding
BRAC	43.77%
International Finance Corporation	5.36%
ShoreCap Limited	0.86%
Non-Resident Bangladeshi	0.43%
Mutual Funds	3.22%
Institutions and General Public	46.36%

*e.g. Annual Report BRAC Bank (2010)*



### MANAGEMENT OF BRAC BANK LIMITED:

Boards of directors are the sole authority to take decision about the affairs of the business. Now there are 5 directors in the management of the bank. All the directors have good academic background and have huge experience in business. **Sir Fazle Hasan Abed** is the Founder of the bank. The board of directors holds meetings on a regular basis. The current management teams and board of directors' name are given in the following table:

The Board of Directors of BRAC Bank Limited includes:

Mr. Muhammad A (Rumeel) Ali	Chairman
Mr. Quazi Md. Shariful Ala	Director
Mr. Mark A.Coffey (Nominated By ShoreCap International Limited)	Director
Ms. Nihad Kabir	Director
Ms. Tamara Hasan Abed	Director
Mr. Shib Narayan Kairy	Director
Syed Mahbubur Rahman	Managing Director & CEO

*e.g. Annual Report BRAC Bank (2010)*

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## **DIVISION OF BRAC BANK LTD:**

There are five different business units generating business BRAC BANK Limited:

- I. Small & Medium Enterprise (SME)
- II. Corporate Banking
- III. Retail Banking
- IV. Treasury
- V. Remittance Services

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## **PRODUCTS AND SERVICES:**

The bank has wide range of Product line to suit the need of the people of all strata. In addition to convention product both Asset and liability sides the Bank offers special credit products for its customer. These are:

- Consumer financing
- Lease Financing
- Small Loan
- Festival Loan
- Housing Loan
- Long-term & Short term loan financing
- Real Estate and Civil Construction
- SME and Agro Based

### **Ancillary services**

- Brokerage House service under the central depository with membership of Stock Exchange
- Foreign Currency Remittance

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## SWOT ANALYSIS OF BRAC BANK:

SWOT analysis is an important tool for evaluating the company's Strengths, Weaknesses, Opportunities and Threats. It helps the organization to identify how to evaluate its performance and scan the macro environment, which in turn would help organization to navigate in the turbulent ocean of competition.

### **Strengths:**

**Goodwill:** BRAC bank LTD has already established a favorable reputation in the banking industry of the country particularly among the new comers. Within a period of 5 years, BBL has already established a firm footing in the banking sector having tremendous growth in the profits and deposits. All these have leded them to earn a reputation in the banking field

**Sponsors:** BBL has been founded by a group of eminent entrepreneurs of the country having adequate financial strength. The sponsor directors belong to prominent resources persons of the country. The Board of Directors headed by its Chairman Mr. F. H. Abed. Therefore, BBL has a strong financial strength and it is built upon a strong foundation.

**Efficient Management:** The top management of the bank is also major strength for the BBL who has contributed heavily towards the growth and development of the bank. The top management officials have all worked in reputed banks and their years of banking experience, skills, expertise will continue to contribute towards further expansion of the bank. At BBL, the top management is the driving force and the think tank of the organization where policies are crafted.

**Facilities and equipment:** BBL has sufficient physical facilities and equipments to provide better services to the customers. The bank has computerized and online banking operations under the software called Finacle banking operations. Counting machines in the teller counters have been installed for speedy service at the cash

counters. Computerized statements for the customers as well as for the internal use of the bank are also available.

### **Weaknesses:**

**Lack of advertising and promotion of SME loan:** This is a major setback for BBL and one of its weakest areas. BBL's advertising and promotional activities are satisfactory but its SME loan is not advertised well. It does not expose its SME product to general public and are not in lime light. As a result large number of people is not aware of the existence of this bank.

**NGO name (BRAC):** BRAC is one of the largest NGO of the world and it is operating its activities in Bangladesh. BRAC bank is not a NGO bank but many people of the country consider it as a NGO bank like Grameen bank which is not correct.

**Remuneration:** The remuneration package for the entry and the mid level management is considerably low. The compensation package for BBL entry level positions is even lower than the contemporary banks. Under the existing low payment structure, it will be difficult to attract and retain higher educated employees in BBL. Especially CROs are not satisfied with compensation package provided to them.

### **Opportunities:**

**ATM:** BBL always tries to provide excellent services to its customers. By considering this thing BBL provides ATM card to its customers and they can increase number of available ATM booths in different locations in the country.

**Diversification:** BBL can pursue a diversification strategy in expanding its current line of business. The management can consider options of starting merchant banking or diversify in to leasing and insurance. By expanding their business portfolio, BBL can reduce their business risk.

**Product line proliferation:** In this competitive environment BBL must expand its product line to enhance its sustainable competitive advantage.

**Available Branches:** With its proper and useful operational network, there is an opportunity for BRAC Bank to further expand its branches in many remote and new location of the country which will deliver services to customer and earn a healthy profit for the bank.

## **Threats:**

**Competition:** Competition is a threat for any kind of business. At the age of modern business the competition is increasing. Every bank has an intention to provide better services compared to others for capturing the market share and the customers.

**Multinational banks:** The emergence of multinational banks and their rapid expansion poses a potential threat to the new growing private banks. Due to the booming energy sector, more foreign banks are expected to arrive in Bangladesh. Moreover, existing foreign banks; such as Standard Chartered is now pursuing an aggressive branch expansion strategy. This bank is establishing more branches countrywide and already launched its SME operation. Since the foreign banks have tremendous financial strength, it will pose a threat to the local banks.

**Upcoming banks:** The upcoming private local banks can also pose a threat to the existing private commercial banks like BBL. It is expected that in the next few years more local private banks may emerge. If it happens the intensity of competition will rise further and banks will have to develop strategies to compete against foreign banks.

**Contemporary banks:** The contemporary banks of BBL such as Dhaka bank, prime bank and Dutch Bangla Ltd. are its major rivals. Prime bank and other banks are carrying out aggressive campaign to attract lucrative clients as well as big time depositors.

**Leasing companies:** Leasing companies like IDLC and others are also competitors of BRAC Bank.

## Chapter 3

### Job Description and Personal Experience



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## JOB DESCRIPTION

Designation: Cash and Client Service Officer

### Roles and Responsibilities

My working hour started at 10 am in the morning as banking hour starts and ended normally at 6.00 pm or more. During this time I have to do the following works:

- Count money in the cash drawers at the beginning of the shift to ensure that the amount in hand which is taken from the vault and the balance shown in the core banking system, “Finacle” is balanced.
- Greet customers entering for transactions and queries.
- Receive payment by cash, cheque, credit cards, vouchers or automatic debit.
- Cash cheques for customers.
- Issue receipts, refunds, credits or change due to customers.
- Provide answer for customers’ queries and provide information regarding their accounts, different products of the bank and procedures or policies.
- Resolve customer complaints or refer them to the concerned person who could solve that.
- Calculate the total payment received during the day and match it with the “Finacle” balance.
- Cross-check the vouchers received during the day to check the accuracy of the transaction using “Finacle”.
- Compute and record totals of transactions.
- Provide better customer service and keep good customer relation to help the bank retain loyal customers.



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## PERSONAL EXPERIENCE

As Cash and Client Service Officer of BRAC Bank Ltd I got valuable experiences which will help me in my future career. The working environment of the organization is suitable for people from different context where they can cope up with the work easily. What I admired most during the period in the bank is the learning scope. There is a great potentiality to learn many of the banking aspects with wide vision. I have learnt how to cope up with the corporate behavior and how to deal with a challenging situation with patience.

After I joined the bank I had to go through 2 weeks long training sessions. These training sessions helped me to learn about different aspects of banking. I came to know about the different divisions generally banks have and the roles, responsibilities and contributions of those divisions towards the bank as a whole.

Through the training sessions and my work in the bank I have learnt many professional etiquettes and behavior. I have learnt how to talk with the guest or the customers at the work and outside work, telephone etiquettes, and formal email-communication. I also learnt to write internal reports and official letters.

The entire experience was very insightful and I have learnt a lot from my experience during my work in the bank.

# Chapter 4



## SME Banking Division

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## **INTRODUCTION:**

SME network of BRAC Bank has already been established all throughout Bangladesh. For SME loan operation, BRAC Bank Limited has in total 421 unit offices, 67 zonal offices, 14 territories and 1800 Customer Relationship Officers. These CROs work for the Bank to converge clients for getting the SME loan. It has served 320,000 entrepreneurs, with over BDT 14,500 crores of SME loans through 503 customer touch points (SME Unit Offices, SME Sales and Service Centers, Krishi Branches, and other Branches). BDT 37,400 million SME assets were fueled by BDT 8,970 million SME deposits and the rest of the deposits from other sources in 2010. PAR (Portfolio at Risk) has been declined slightly in 2010.

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## **VISION:**

Remain a leading bank in SME banking, while being respected locally as well as globally at the same time keeping the focus on people, profit, and planet.

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## **STRENGTHS:**

- Brand image
- Trained sales force
- Good quality staff and service
- Quality distribution network
- Strong credit & collection framework
- Superior technology

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## STRUCTURE:

The SME banking division of BRAC Bank has the following departments:

**Small Business** is organized into regions, territories, zones, and unit offices all throughout the country. In the past, the department provided small loans to entrepreneurs. Now it is fully equipped to provide all kinds of products and services to small entrepreneurs. It is the biggest department of the division in terms of asset, deposit, and nationwide presence.

**Medium Business** works in Dhaka and Chittagong to cater medium size businesses. It is looked after by Senior Relationship Managers/Relationship Managers.

**Product and Portfolio** department looks after both lending and deposit product development, implementation and review, training and communication aspect of the division. It also manages the product support function (internal staff queries, pricing, and product collateral management). The department also has separate product focused sales teams (Large loans/trade finance/commercial vehicle finance).

**Deposit Mobilization** looks after the overall deposit portfolio of SME Banking. It undertakes all activities (Product modification, communication, training, pricing, and other aspects) to boost deposit growth. The department also has product focused sales team for liability product sales.

**Monitoring and MIS** looks after the processes of the division, control aspect of unit offices, management reports, communication with stakeholders (IFC/Board), and special initiatives.

**Compliance** looks after the Human Resources compliance, regulatory reporting/communication, and proactive risk management.

## TARGET MARKET:

- Trading of grocery item
- Hardware
- Chemical products
- Sanitary ware
- Building materials (rod, cement, brick, paint, and others)
- Electrical and electronic items
- Imported foods (biscuits, cheese, juice, and such items)
- Light machinery
- Large tailoring business
- Weaving mills
- Bakery
- Printing house
- Feed mill
- Poultry
- Dairy farm
- Fisheries
- Manual/auto rice mill
- Boutiques and parlors
- Restaurants
- Distributor of FMCG products/others
- Fish wholesaler
- Food grain wholesaler
- Wood processing/saw mills
- Many more...

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## REASONS OF SME BANKING:

The main focus of BRAC Bank is to develop the human and economic position of our country so, its function is not limited only to provide and recover loans. Thus the reasons of SME banking from the viewpoint of BRAC Bank Limited are:

- **Support Small and Medium Enterprise:** The main aim of SME in our country is to support small and medium enterprises. In our country small and medium entrepreneurs do not have easy access to loans from the commercial banks/ financial institutions. But BRAC Bank Limited Provides loans to such entrepreneur without any kind of mortgage.
- **Create Employment:** To create employment opportunities in the market. By providing loans to the small enterprises that cannot start or expand their business because of lack of fund, BRAC Bank is helping them to expand. When a business expands it requires more workers and thus employment is created.
- **Economic Development:** Economic development of a country largely depends on the small and medium sized enterprises. If the missing middle becomes successful then our country will economically develop.
- **Profit Making:** SME program is a new dimensional banking system in the banking world. Most of the CROs are providing door-to-door services to the entrepreneurs. These satisfied Entrepreneurs are making profit due to the guidance and services provided by the bank.
- **Encourage Manufacturing:** The focus of BRAC Bank Limited is to encourage manufacturing to the entrepreneurs who produce by purchasing various types of materials. CRO's are trying to educate these entrepreneurs that manufacturing some of the materials on their own would decrease their liabilities thus increasing profit.

**SME NETWORK OF BRAC BANK**



*e.g. operation manual, SME BRAC Bank (2010)*

## SME PRODUCT DETAILS OF BRAC BANK:

### ANONNO RIN

A business loan scheme for the purpose of working capital finance and/or fixed assets purchase to the small and medium sized trading, manufacturing, service, agriculture, non-farm activities, agro-based industries etc. all over Bangladesh through marketing and distribution offices (called unit offices) across the country. The loan, under this scheme, would be secured by hypothecation on the inventory, receivables, advance payments, plant & machineries, charge on immovable properties, third party personal guarantee, equitable/registered mortgage of land property, full or partial cash cover (in the form of readily en cashable government bonds, mutual fund unit certificates and deposits/fixed deposits in our Bank or in other Banks if the entrepreneur(s)/owner(s) offers/agrees to offer).

NAME	FEATURES	LOAN AMOUNT (BDT)	INTEREST RATE & TENURE	ELIGIBILITY CRITERIA
<b>Anonno</b>	Loan without Mortgage	<b>3 lac to 8 lac</b>	<b>18-18.8% p.a</b>	18 – 60 years of age
	Discounted rates for Excellent Borrowers			Minimum 2 years experience in the same line of business
	Quick, quality banking throughout the country			Business must be going concern for more than a year

*e.g. operation manual, SME BRAC Bank (2010)*



## APURBO RIN

A business loan scheme for the purpose of working capital finance and/or fixed assets purchase to the small and medium sized trading, manufacturing, service, agriculture, non-farm activities, agro-based industries etc. all over Bangladesh through SME unit offices across the country. The loan, under this scheme, would be secured by hypothecation on the inventory, receivables, advance payments, plant & machineries, charge on immovable properties, third party personal guarantee, equitable/registered mortgage of landed property, full or partial cash cover (in the form of readily encashable government bonds, mutual fund unit certificates and deposits/fixed deposits in our Bank or in other Banks if the entrepreneur(s)/owner(s) offers/agrees to offer)

NAME	FEATURES	LOAN AMOUNT (BDT)	INTEREST RATE & TENURE	ELIGIBILITY CRITERIA
<b>Apurbo</b>	Without mortgage for loan below 10 lac.	<b>8 lac to 30 lac</b>	<b>16-17% p.a.</b>	25 – 60 years of age
	Simple loan processing for expanding your business			Minimum 3 years of some sort of business activities
	Quick disbursement			Business must be a going concern for more than 3 years

*e.g. operation manual, SME BRAC Bank (2010)*

## DIGOON RIN

DIGOON RIN is a loan facility for small and medium sized trading, manufacturing, service, agriculture, non-farm activities, agro-based industries etc. spread all over Bangladesh through the unit offices across the country. The product offers terminating loan facilities for the purpose of working capital finance and/or fixed assets purchase under Equated Monthly Installment loan facility or Single Installment Loan facility. To avail 'Digoon Rin' facility the enterprise has to give 50% cash security (Fixed deposited in BRAC Bank) of the loan amount.

NAME	FEATURES	LOAN AMOUNT (BDT)	INTEREST RATE & TENURE	ELIGIBILITY CRITERIA
<b>Digoon</b>	Double amount of loan on your deposit	<b>5 lac to 30 lac</b>	Equated Monthly Installment loan facility: <b>17 %</b>  Single Installment Loan facility: <b>18 %</b>	18 – 55 years of age
	Attractive return against the deposit			Must have at least 2 years of business experience
	Flexible repayment plan in monthly installment and single installments			Business must be a going concern for more than 2 years

*e.g. operation manual, SME BRAC Bank (2010)*

## PROTHOMA RIN

“PROTHOMA RIN” is a loan facility for small and medium sized trading, manufacturing, service, agriculture, non-farm activities, agro-based industries etc. which are operated by women entrepreneurs, spread all over Bangladesh through our unit offices across the country. The product offers terminating loan facilities for the purpose of working capital finance and/or fixed assets purchase. Currently only a small percentage of our existing clients are women. This new loan product will help us to penetrate the women entrepreneurs who want to avail loan facility.

NAME	FEATURES	LOAN AMOUNT (BDT)	INTEREST RATE & TENURE	ELIGIBILITY CRITERIA
<b>Prothoma</b>	In case the tenant borrower cannot obtain trade license showing her name as owner of the business, loan can be sanctioned in the personal name of the borrower	<b>3 lac to 10 lac</b>	<b>10% p.a.</b>	18 – 55 years of age
	Discounted rates for excellent borrowers			Minimum two years of experience in the same line of business
	Repay the loan in the method and time period that suits you the best			Minimum of one year of continuous business history
	Borrower availed any loan in the name of his/her sister concern business loan may be approved if the loan is regularly repaid from the sister concern business			The business should be located surrounding the unit offices of BRAC bank across the country

*e.g. operation manual, SME BRAC Bank (2010)*

## PATHSHALA RIN

The product offers term loan facilities for the purpose of fixed assets purchase under Equated Monthly Installment. The loan would be secured by hypothecation on the inventory, receivables, advance payments, equipments, furniture & fixtures, charge on immovable properties, equitable/registered mortgage of landed property, partial or full cash cover (in the form of readily encashable mutual fund unit certificates and deposits/fixed deposits in our Bank or in other Banks).

NAME	FEATURES	LOAN AMOUNT (BDT)	INTEREST RATE & TENURE	ELIGIBILITY CRITERIA
Pathshala	Without mortgage for loan below 10 lac	3 lac to 10 lac	24% p.a. at monthly rest for loan amounting 3 lac to 10 lac	The institution should be sole proprietorship, partnership, Private Limited Company, or Society
	Loan for fixed assets purchase & civil construction			
	Loan repayment can be spread up to 4 years		17% p.a. at monthly rest for loan amounting above 10 lac to 15 lac	The educational institute must be a profit making concern
	Minimum documentation			
	Monthly repayment plan		16% p.a. at monthly rest for loan amounting above 15 lac up to 30 lac	A small & medium educational institution that is in operation for minimum 3 years
	Quick disbursement			
	Flexible interest rate based on security			

*e.g. operation manual, SME BRAC Bank (2010)*

## SUPPLIER FINANCE

Supplier Finance is a loan facility for the enlisted suppliers of various corporate houses. Under this product, respective Suppliers will get loan limit maximum 80% of their last 1(one) year average monthly bills or work orders of particular corporate house. The product offers terminating loan facilities for the purpose of working capital finance under Equated Monthly Installment loan facility or Revolving Loan facility with multiple drawdown options and Single Installment based repayment plan. To avail this loan facility; BRAC Bank, particular corporate house and the enlisted supplier of particular corporate house have to sign a tripartite agreement.

NAME	FEATURES	LOAN AMOUNT (BDT)	INTEREST RATE & TENURE	ELIGIBILITY CRITERIA
Supplier Finance	Equal monthly installment and revolving loan facility	3 lac to 30 lac	3 lac to 9.5 lac - <b>22% p.a</b> at monthly rest	If you are an enlisted supplier of a corporate house with which BRAC Bank has a corporate tie- up
	1% of loan amount as the processing fee		10 lac to 15 lac - <b>17% p.a</b> at monthly rest	Have 1 year continuous relationship with the purchasing firm
			Above 15 lac to 30 lac - <b>15% p.a</b> at monthly rest	Have minimum 3 years of continuous operation

*e.g. operation manual, SME BRAC Bank (2010)*

## AROGGO RIN

The main objective of launching AROGGO loan is to finance private clinics and diagnostic centers to further broaden the SME customer base. Through AROGGO loan, health centers will get the opportunity to upgrade their medical facilities or expand business. This will contribute to the overall enhancement of health facilities available in Bangladesh.

NAME	FEATURES	LOAN AMOUNT (BDT)	INTEREST RATE & TENURE	ELIGIBILITY CRITERIA
<b>Aroggo</b>	Loan without mortgage up to 8 lac	<b>3 lac to 10 lac</b>	3 lac to 8 lac – <b>20% p.a.</b> at monthly rest	Doctors having 5 years of experience
	Easy loan processing			A profit making concern
	Loan repayment schedule is spread up to 3 years		Above 8 lac to 15 lac - <b>17% p.a</b> at monthly rest	Institutions with at least 2 years in operation
	1% loan processing fee		Above 15 lac to 30 lac - <b>16% p.a</b> at monthly rest	
	Flexible interest rate based on security			

*e.g. operation manual, SME BRAC Bank (2010)*

## CASH SECURED LOAN

Cash Secured Loan is a loan facility for small and medium size trading, manufacturing, service, agriculture, non-farm activities, agro-based industries etc. spread all over Bangladesh through the branches or unit offices of BRAC Bank across the country. The product offers terminating loan facilities for any purpose related to business. There are two types of loan facility in the product i.e. Secured Loan and Secured Overdraft. These facilities are fully secured by fixed deposit of BRAC Bank.

NAME	LOAN AMOUNT (BDT)	INTEREST RATE & TENURE (Secured Loan)	INTEREST RATE & TENURE (Secured Overdraft)	ELIGIBILITY CRITERIA
Cash Secured Loan	3 lac to 30 lac	<b>Type- A:</b> Loan 100% of the face value of Fixed Deposit  <b>3% p.a.</b> spread over Fixed Deposit's interest rate	<b>Type- D:</b> Loan 95% of the face value of Fixed Deposit <b>3% p.a.</b> Spread over Fixed Deposit's interest rate.	The entrepreneur must have minimum 6 (Six) months experience in the same line of business.
		<b>Type –B:</b> Loan 90% of the face value of Fixed Deposit  <b>2.5% p.a.</b> spread over Fixed Deposit's interest rate.	<b>Type- E:</b> Loan 80% of the face value of Fixed Deposit. <b>2% p.a.</b> spread over Fixed Deposit's interest rate.	To be determined by Trade license (if available)
		<b>Type-C:</b> Loan 80% of the face value of Fixed Deposit  <b>2% p.a.</b> spread over Fixed Deposit's interest rate.		

*e.g. operation manual, SME BRAC Bank(2010)*

## BIZNESS ACCOUNT

Business Account is an interest bearing account only for business Enterprise for SME and Retail Banking. This product has been set in a way to encourage small & medium entrepreneur to enter into the wide range of modern banking facilities of BRAC Bank Limited.

BBL SME Banking Products				
NAME	FEATURES	LOAN AMOUNT (BDT)	INTEREST RATE & TENURE	ELIGIBILITY CRITERIA
<b>BIZNESS Account</b>	Smart Business Card	<b>50,000</b> withdrawing facility (per day) from ATM & <b>100,000</b> from POS	<b>4%</b> interest on daily balance	Entrepreneurs aged between 18 to 60 years
	24 hour Access to ATMs/ POS			
	No Minimum Balance, No Ledger Fees, No hidden cost		Interest paid to account twice a year	Opening balance - BDT-10,000.00
	No bar for using POS			
	Phone-Banking, Online Banking, SMS Banking, Internet Banking facility			Small and medium sized business entrepreneur of a sole proprietorship business

*e.g. operation manual, SME BRAC Bank(2010)*



# Chapter 5

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## Loan Activities and Reconciliation Process

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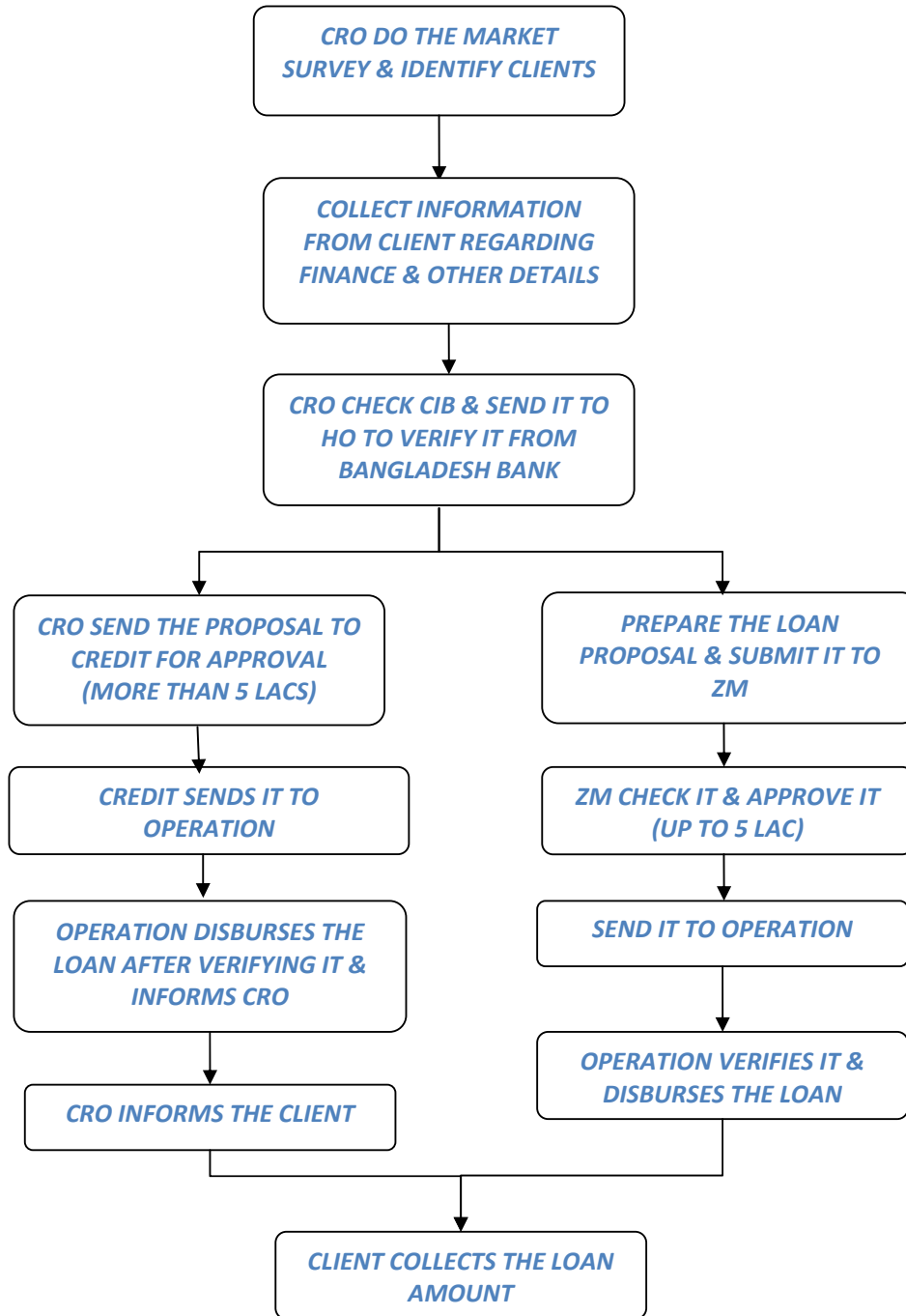
## PROCEDURE OF BRAC BANK SME LOAN:

Customer Relations Officers (CRO) helps a customer choose the scheme which best meets his/her financial requirements and fits his/her business size and nature. The CRO then collects all the requisite documents from the customer, consolidates the information, and after ensuring that all the required documentation are in place, he prepares the Loan Application Proposal (LAP) and passes it on to his Zonal Manager. The Zonal Manager visits the business, gives the file a final check and forwards it to the Credit Risk Management department of the bank.

The Credit Analyst in the SME Credit wing visits the business location and analyzes the loan proposal by making an assessment of the customer's ability to repay based on his business profile and matching customer's proposal with his credit assessment to determine whether the customer can be financed. The bank's credit officers are always proactive in identifying and managing any risks/gaps in the credit file and communicating them to the respective CROs so they can correct the discrepancies and provide the required information. In areas where there are no centralized credit assessment departments, the bank has audit team that visits the business location and assesses the file.

The Origination department verifies the documentation and opens the loan accounts of the customers. In addition, they help obtain the CIB of the customer, a mandatory requirement of Bangladesh Bank and then distributed to them. SME Business and CRM jointly manage the collection responsibility across the country based on overdue aging. SME Repayment Unit performs the functions of loan repayment and the Closing Unit does the loan closure. The CRO obtains the deposit slip from the customers for the monthly installments; he sends a mobile text to Head Office for realization of the installment. The slips are collected at the repayment unit for reconciliation. As the loan matures, the closing and clearing units handles the necessary paperwork and forwards the clearance certificate and redemption authority of mortgage property to the respective CRO/ZM, who then hands them over to the customer.

**PROCESS FLOW:**



*e.g. operation manual, SME BRAC Bank(2010)*

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## ENTERPRISE SELECTION CRITERIA:

The success of SME will largely depend on the selection of a business and person(s) behind it. In terms of the business (Enterprise), the following attributes should be sought:

- **Business Age:** The age of business must be one year. If the business is older than they get more preference and facility.
- **Registration:** The business should be legally registered, i.e., valid trade license, income tax or VAT registration, wherever/whatever applicable.
- **Environment friendly:** The business should be environment friendly, no narcotics or tobacco business.
- **Defined Market:** The business must have a defined market with a clear potential growth.
- **Location of business:** The business must be located ideally close to the market and the source of its raw materials/suppliers. It should have access to all the utilities, skilled manpower that are required for the business.
- **Riskiness of business:** Any risk assessed by the management of the business in turn will become a credit risk for the bank. So effort should be made to understand the risk faced by the business.

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**ENTREPRENEUR SELECTION CRITERIA:**

In order to understand the capability of the management behind the business, the following should be assessed:

- 1.** The entrepreneur should be physically able and in good health, preferably between the age of 25-50. If he/she is an elderly person closer to 50, the succession process will be analyzed to determine whether the person's age is clearly defined or not.
  
- 2.** The entrepreneur must have the necessary technical skill to run the business, i.e. academic background or vocational training, relevant work experience in any institution or years of experience in this line of business.
  
- 3.** The entrepreneur must have an acceptable social standing in the community (people should speak highly of him), he should possess a high level of integrity (does not cheat and generally helps people), and morally sound (participates in community building).
  
- 4.** The entrepreneur must possess a high level of enthusiasm and should show that he is in control of his business (confidently replies to all queries) and has the ability to take up new and fresh challenges to take the business forward.
  
- 5.** Suppliers or creditors should corroborate that he pays on time and is general in nature.
  
- 6.** Clear-cut indication of source of income and reasonable ability to save.

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## **GUARANTOR SELECTION CRITERIA:**

Equally important is the selection of a guarantor. The same attribute applicable for an entrepreneur is applicable to a guarantor. In addition he should possess the following:

- 1.** The guarantor must have the ability to repay the entire loan and is economically solvent (Check his net worth).
- 2.** The guarantor should be aware about all the aspect of SEDF loan and his responsibility.
- 3.** Govt. and semi-govt. officials can be selected as a Guarantor such as schoolteacher, college teacher, doctor etc.
- 4.** Police, BDR and Army persons, political leaders and workers, and Imam of mosque cannot be selected as a guarantor.
- 5.** The guarantor should know the entrepreneur reasonably well and should preferably live in the same community.

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## TYPE OF SECURITIES TAKEN AGAINST LOAN:

The following listed securities may be obtained from borrower against loan to enterprises, either individually or in a combination.

It is really up to the bank what they would like to accept as security from the borrower as not all the securities stated below are suitable:

- Mortgage of loan and other immovable property with power of attorney to sell
- Lien of Fixed Deposits receipts with banks and other non-banking financial institutions, lined, these have to confirm by the issuer
- Lien of Pratiraksha sanchay patra, Bangladesh sanchay patra, ICB unit certificates and wage earner development bond, all considered Quasi or Near cash items
- Lien of shares quoted in the stock exchange (This is rarely accepted)
- Pledge of goods (Banks are akin to stay away from such securities now a days)
- Hypothecation of Goods, Book Debt & Receivables, Plant & Machineries
- Charge on fixed assets of a manufacturing enterprise
- Lien of cheque, Drafts and order
- Lien of work orders, payment to be routed through the bank and confirmed by the issuer
- Shipping documents of imported goods

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## **MONITORING:**

Monitoring is a system by which a bank can keep track of its clients and their operations. So monitoring is an essential task for a CRO; to know the borrowers activities after the loan disbursement. This also facilitates the buildup of an information base for future reference.

### **Importance of Monitoring:**

Through monitoring a CRO can judge whether the enterprise invested the sanctioned amount in the pre-specified area of his business, how well the business is running, the attitude of the entrepreneur, cash credit sales and purchases, inventory position, work in process and finished goods etc. This information will help the CRO/BRAC Bank to recover the loan accruing to the schedule and to take the necessary decisions for repeat loans. Moreover, monitoring will also help to reduce delinquency. Constant visit over the client /borrower ensures fidelity between the bank and the borrower and tends to foster a rapport between them.

### **Area of Monitoring:**

#### **Business Condition**

The most important task of the CRO is to monitor the business frequently. It will help him to understand whether the business is running well or not, and accordingly advise the borrower, whenever necessary. The frequency of monitoring should be at least once month if all things are in order.

#### **Production**

The CRO will monitor the production activities of the business and if there are any problems in the production process, the CRO will try to help the entrepreneur to solve the problem(s). On the other hand the CRO can also stop the misuse of the loan other than for the purpose for which the loan was disbursed.



## Sales

Monitoring sales proceeding is another important task of the CRO, it will help him to forecast the monthly sales revenue, credit sales etc. which will ensure the recovery of the monthly loan repayments from the enterprise as well as to take necessary steps for future loans.

## Investment

It is very important to ensure that the entire loan has been invested in the manner intended. If the money is utilized in other areas, then it may not be possible to recover the loan.

**DISBURSEMENT AMOUNT & CLIENT BASE OF SME BANKING:**

BRAC Bank’s SME banking is continuing its journey of serving the SMEs, as can be observed from the tremendous growth in client base and from the disbursement amount.

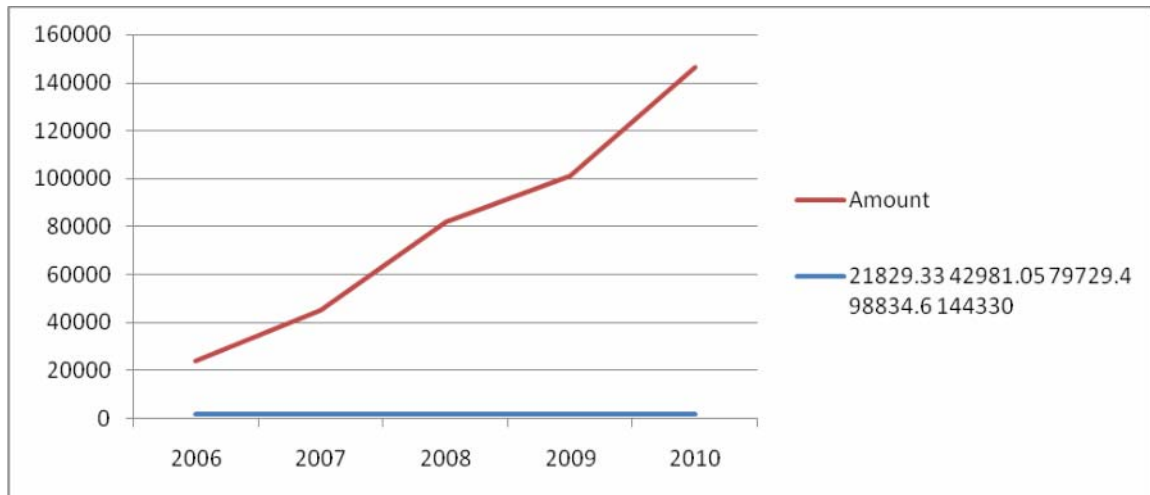
<b>Disbursement Amount of SME Banking in million BDT (Cumulative)</b>	
<b>Year</b>	<b>Amount</b>
2006	21829.33
2007	42981.05
2008	79729.4
2009	98834.6
2010	144330

*e.g. Annual Report BRAC Bank(2010)*

<b>Number of SME loan disbursement (Cumulative)</b>	
<b>Year</b>	<b>No of loan</b>
2006	14482
2007	30130
2008	59998
2009	113009
2010	320000

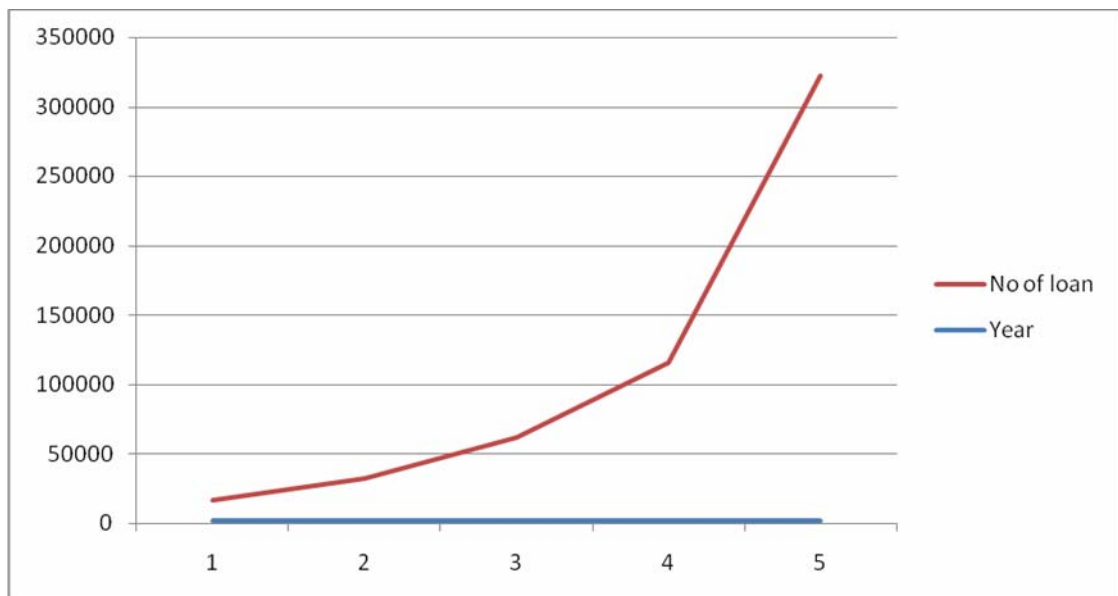
*e.g. Annual Report BRAC Bank(2010)*

**Disbursement Amount of SME Banking in million BDT (Cumulative):**



e.g. Annual Report BRAC Bank(2010)

**Number of SME loan disbursement (Cumulative):**



e.g. Annual Report BRAC Bank(2010)

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## RECONCILIATION:

The SME, Probashi and Cash management business of BRAC Bank Limited is mostly dependent on corresponding banking relationship. BRAC Bank has to open accounts with the other banks in the remote areas where representation of BRAC Bank is not available. The corresponding bank accounts are used for SME disbursement, realization, remittance and cash management purpose. Every month it is found that a huge number of entries are un-reconciled between the bank and the corresponding banks book.

The bank has to prepare the periodic reconciliation statements to identify any mismatch. Reconciliation is the process of systematically comparing the balance of bank statement with the balance as per the company's ledger and explaining any differences and taking necessary measures to correct the wrong entries. It is an important internal control mechanism of the bank.

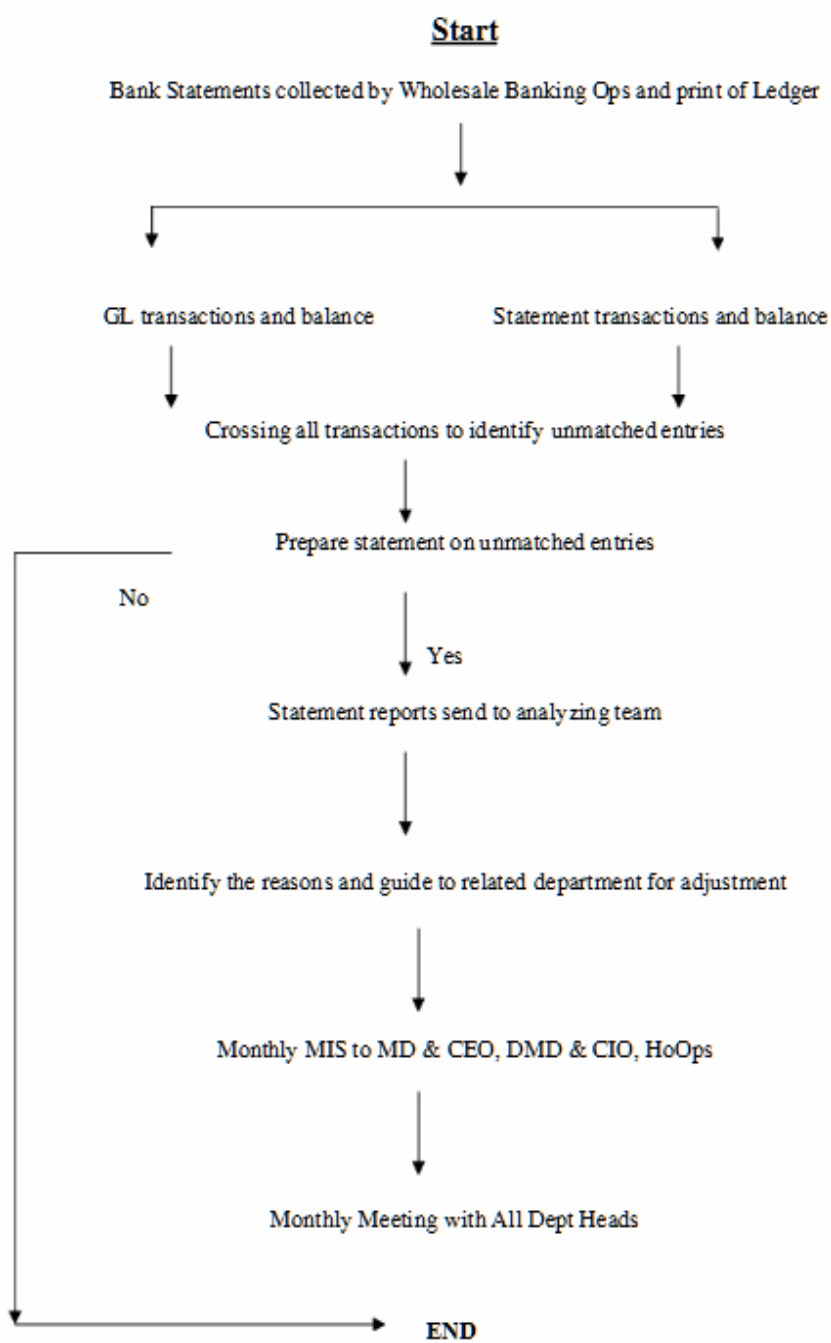
The responsibilities of reconciliation of BRAC Bank are centralized and given to Central Operations. There is a separate devoted team under the Central Operations for identifying the unmatched items, analyzing the same and guide to the initiating departments to do the rectification. Reconciliation section of Central Operations prepares and submits a status report on monthly basis and the same to all concerned departments and Operational Risk Management Departments for their information and monitoring. They also submit a status report to MD & CEO and DMD, CIO and Hoed of Operations for their information.

### Why Reconciliation?

To identify the nature of reconciliation items and to adjust these to ensure that the profit/loss and balance sheet reflect the true net position of the bank at the consolidated level.

1. Enhance the control environment.
2. Minimize the enterprises risk

**Reconciliation- Process Flowchart:**



## Description of Process Flowchart:

### Statement Collection

Wholesale Banking Operations Department is responsible for collecting the Bank statements from the correspondence Bank by 7<sup>th</sup> of the following month. Concerned staff of WBO collects Mother A/c statements. SME CRO's will collect Child A/c statements and send those to Financial Information System by the 1<sup>st</sup> week of every month. After receiving a/c statements FIS will deliver the original statement to Central Operations by 10<sup>th</sup> of every month for reconciliation and preserve a copy duly received by Central Operations. If there are any problems or pending found in the bank statements, Wholesale Banking Operations Department will communicate with the concerned CRO/ZM of SME for sending the corrected copy to Central Operations Department within five working days from the date of receipts.

### Reconciliation Process

- i) After receiving Bank statement from Wholesale Banking Operations Department, Reconciliation Team takes print of the GL account and cross/match all entries between Bank statements and GL account to identify unmatched entries.
- ii) Reconciliation statements of all unmatched entries are prepared by an identifying team and sent to an analyzing team for adjustment.
- iii) Respective department will provide all supporting documents if required by reconciliation team within 2/3 working days for analyzing entries.

### Analysis & Adjustment

Adjustment team prepares a statement of all identified mismatched entries with supporting documents and sends the same to respective departments to pass the necessary correction entries for adjustments.

Upon receiving the statement (Adjustment advice) from Central Operations, respective departments will pass the correct entries within 03 working days and send a copy to Central Operations for recording.

### Reports

Detailed monthly reconciliation statement of Inter-Branch is prepared and is sent to Bangladesh Bank as per Bangladesh Bank DOS circular no-2 dated January 28, 2007.

### MIS

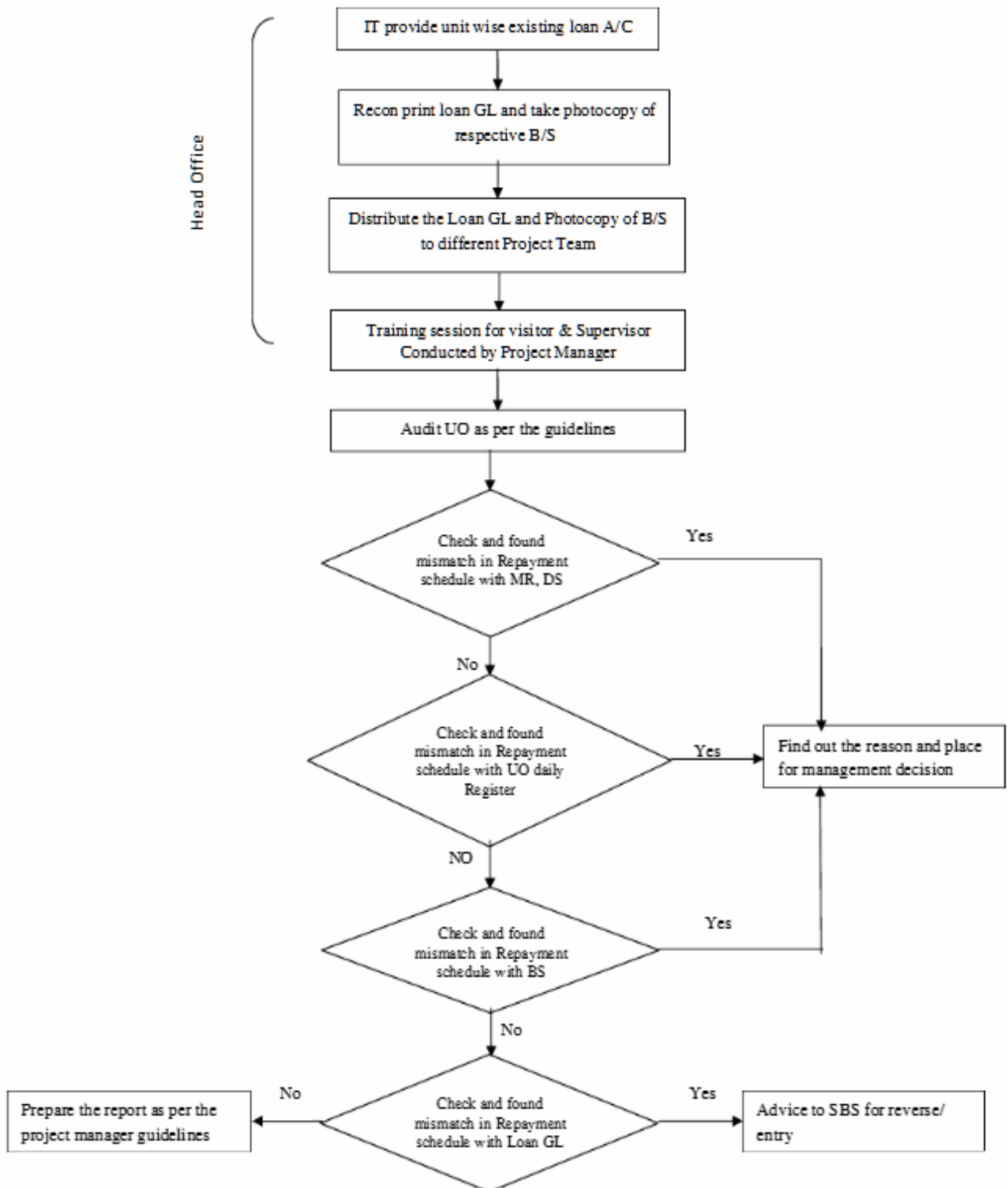
An aging analysis is prepared and forwarded to:

- Managing Director and CEO
- Deputy Managing Director
- Chief Information Officer
- Head of operations
- All Concerned Department /Branch for information & necessary action

### Meeting with Related Departments

- Monthly meeting is arranged with all related departments regarding the status of reconciliation.
- Minutes of the meeting are circulated to all participants.

**Process Flow for Reconciliation Project:**





# Chapter 6

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## Findings

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## FINDINGS:

BRAC as a renowned NGO had used its experiences in many sectors including BRAC Bank. By using SME banking it has opened itself to young entrepreneurs who have the potential to have a successful business. And with these many successful businesses BRAC Bank succeeded in capturing more customers through SME banking and grew all around the country.

From my analysis of SME banking I was able to make out the following findings:

- Each CRO are objected to individual target assigned by the Head Office. So, the CRO's don't get enough time to monitor Loan Utilization.
- The SME head office collects all information and sends the CIB form to Bangladesh Bank for clearance. Bangladesh Bank returns this CIB form to the respective SME head office which takes about 10-12 days. In other words, time is wasted.
- The respective unit office sanctions loan to the client if it ranges between BDT 2 to 5 lacs, and then sends the sanction letter including all necessary charge documents to the Regional Operations Centre (ROC) for disbursing the loan. If the loan amount is higher than BDT 5 lacs, only the SME head office has the authority to sanction.
- CRO's are the key indicator of SME banking division. Yet their training facilities are limited and their remunerations are not enough.
- Age has a significant impact on SME loan repayment. Young entrepreneurs have higher rate of default. On the other hand middle aged and experienced entrepreneurs are very loyal and they can make proper and timely repayment of their loans. And that's why most of the SME loan borrower's age ranges from 30 to 40.

- Experienced entrepreneurs run their business tactfully by identifying the exact time e.g. the time when the sales are at the peak is the time one needs more funding. Thus, they take the loan during the peak season when they have excess demand but short of capital. Then they ensure the best use of the loan and make the timely installments. So their recovery rate is good and thus SME loan recovery will be easy.
- Education does not have any direct relationship for disbursing SME loan. In fact, most of the entrepreneurs of retail and whole business (small or medium in size) are not highly educated.

# Chapter 7

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## Recommendation & Conclusion

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## RECOMMENDATION

Considering all the findings and analyzing all the data, the following recommendations are made, which will benefit both BRAC Bank Limited and its customers:

- SME head office sanction the loan by obtaining CIB form from Bangladesh Bank. SME head office should try to collect CIB form with shortest possible time from Bangladesh Bank.
- Train the Customer Relationship officers more comprehensively and realistically so that customers may not face any trouble while getting and repaying the loan. SME should make continuous performance evaluation of the CROs.
- The CROs should be given higher remuneration.
- The bank should effectively monitor the loan utilization of borrower.
- Analyze customers' behavior i.e. what type of customer makes default and may stop giving them SME loan.
- Head Office should use better and faster ways for the closing confirmations as without these the SME unit office cannot disburse the repeat loan.

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## CONCLUSION

BRAC Bank is way ahead in terms of its business, strength, vision, management and services. It works in the most advance way possible in all their activities, making it easy for them to achieve their desired goal more efficiently. BRAC bank Limited promotes broad-based participation in the Bangladesh economy through the provision of high quality and modern banking services. SME loan is one of such quality product through which they offer the small and mediocre entrepreneurs a quality banking services and earn the maximum profit as well. SME business of BRAC Bank Limited is expanding dramatically which creates a large employment opportunity for our country. So BRAC Bank is playing a great role in developing the economical condition of our country.

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